FARMERS AND THE EXPORT MARKET

Address of Henry A. Wallace, Secretary of Agriculture before Annual Convention of American Farm Bureau Federation, Chicago, December 10, 1935

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H I G H L I G H T S

OVER AGAINST THE concessions made by the United States to Canada in the new reciprocal trade agreement must be placed the very real gains assured American farmers by reason of the agreement, which in my considered judgment so far outweigh the losses that the net advantage to our agriculture from the agreement as a whole is very much worth while.

NO CONCESSIONS AT ALL HAVE BEEN MADE to Canada by the United States on those commodities which sell on world markets--wheat, cotton, tobacco and pork. As for the other commodities, for which domestic demand sets the price, the concessions that have been made are not sufficient to have appreciably adverse effects upon any important group of American farmers.

IF YOU THINK of the total production of milk in the United States as enough to fill one thousand cans, the amount of cream admitted from Canada or elsewhere at the reduced rate would be the equivalent of only enough milk to fill one can.

SUBSTANTIAL REDUCTIONS are made in the Canadian duties on meats and meat products, including especially pork and lard. These reductions mark new gains for a settled policy of reopening major outlets for American pork products. Important benefits will accrue to growers of fruits and vegetables in the Pacific Coast States, Colorado, the South, and to some extent the Northeastern States along the border. Under the agreement Canada places potatoes on the free list. Our grain growers, who feared that they would be subjected to new Canadian competition, find instead that they have made substantial gains through the agreement. Canada is ordinarily our best market for all grains except wheat, and concessions now made will open the way to recovery of a very beneficial trade in these commodities as soon as supplies reduced by the drought are replenished.

FARMERS OF THE United States will unquestionably gain from the increased exportation of manufactured products to Canada. Suppose that exports of these products are increased by 300 million dollars--a conservative figure in view of our trade with Canada in the past--and that half of this amount, or 150 million dollars, goes into payrolls. This would mean definite and substantial gains in the cash income of farmers. Studies have shown that in the past an increase of 150 million dollars in United States factory payrolls added from 4 to 6 million dollars to the income of farmers in each of such states as Illinois, Wisconsin, Minnesota, Nebraska, Missouri, Iowa and Ohio. The increases in farm income resulting thus indirectly from the Canadian agreement will accrue largely to the producers of livestock products--the very same groups that are concerned over the concessions on Canadiam cattle, calves, cream and cheese. In other words,

the Canadian agreement will bring substantial improvement in the domestic market for these products--an improvement that greatly outweighs the very slight disadvantage resulting from the limited quantity of imports of these products. Agriculture, instead of having 100 percent of a poor market, will have perhaps 99-1/2 percent of a greatly improved market. I think there is no doubt that farmers will be far better off with a good market, slightly shared.

IF ENOUGH FOREIGN goods were suddenly imported to permit foreign nations to buy an equal amount from us and thus permit the exportation of all of agriculture's surplus beyond domestic needs, the effects on our industrial and economic structure would be highly disturbing. On the other hand, complete retreat by farmers from the foreign market would place the shock of readjustment entirely on them and leave the permanent problem of what to do with 50 to 100 million surplus acres. There was no way to avoid these extremes, each of which would be unfairly harsh to either industry or agriculture, except to choose some moderate middle course, which would mean agriculture and industry sharing the readjustment. Two measures actually adopted by this Administration have represented an attempt to bridge the gap between the two extremes. The Agricultural Adjustment Act, enabling farmers to cooperate in restricting production of their crops, was an attempt to bridge the gap from one direction. The Reciprocal Tariff Act, authorizing the President to negotiate trade agreements with foreign countries, was intended to bridge this gap from the other direction.

IF FARMERS INSIST on 100 percent of the home market for themselves, industrialists will do the same. And if all imports of both agricultural and industrial products are shut off, there can be no exports either. Agriculture not only would sacrifice its chance to win back the foreign markets it has already lost, but would be sure to lose the markets that remain. And permanent and complete loss of our export markets would be even more damaging to American agriculture than to industry, because agriculture has relied upon exports for so much larger a share of its total income.

AGRICULTURE'S REAL AND continuing problem is not how to stop the little trickle of competing farm imports, but how to move its own great surpluses into export. For three or four years, unusually short crops of corn and small grains, resulting from abnormal weather conditions, have obscured the picture. I am afraid farmers do not realize what the pressure of surpluses may do to prices of their products within the next year or two.

IF FARMERS PERMIT their attention to be fixed on certain details of the Canadian agreement and neglect the larger picture, they may take a position which will wreck the incipient movement for a return to sane trade relationships throughout the world. But, if on the other hand, they look upon the Canadian agreement as one important link in the chain of new international friendship, and if they resolutely insist on the forging of other links which directly and substantially serve their own interests, they will be working toward gradual restoration of agriculture and the well-being of the entire nation.

THE ADDRESS

As I address you here today, my mind goes back to other annual meetings of the American Farm Bureau Federation. A record of your proceedings from year to year would doubtless give a farily accurate history of American agriculture during the period since the World War, for it is through your organization and the other great farm organizations that the collective voice of agriculture is heard.

The difficulties of agriculture which grew out of the war brought problems of a type that farmers of this country had never before had to face. These problems stirred the thinking of farmers in widely-scattered parts of the country. A new group of leaders arose who had one thought in common -- that something must be done if American farmers were not to sink permanently to the status of peasants.

No group was more alive to the problems of that period than the officers and members of the Farm Bureau. I have no doubt that hundreds of those attending this meeting were active, locally or nationally, in the various movements which represented the current attempts of organized agriculture to gain economic justice. The situation following the war was new to American farmers, and there were naturally different points of view as to what ought to be done. Gradually it became evident that first and foremost in importance was establishment of a principle, and that agreement on methods could come later. "Equality for agriculture" was the slogan adopted by the American Coucil of Agriculture, and this was recognized by farmers generally as the goal they were seeking. But it took a dozen years of depression and disaster to unite the various groups of farmers behind a single program.

The fight that you in the Farm Bureau and others made for the McNary-Haugen Bill and its equalization fee was the forerunner of the drive for the export debenture, and the ultimate adoption of the Agricultural Adjustment Act, with its processing taxes and benefit payments.

That McNary-Haugen fight taught farmers the importance of standing together. There were differences of opinion concerning details, and to reconcile these differences required a good deal of give-and-take. Now, as then, farmers cannot afford to fall out among themselves, for self-seeking interests which have always opposed them are ready to take advantage of any division in their ranks. Now, as then, there is a need for calm examination of the facts and a spirit of friendly give-and-take in deciding on the direction that organized agriculture ought to go.

I know that some of you are dubious about the effect of the new reciprocal trade agreement with Canada. I am not here to tell you what you ought to think. But I would like to give you my own thoughts, whatever they may be worth, concerning it. I believe the way this agreement is received by yourselves and the other farmers of the United States may have an important bearing on the history of American agriculture and of the American people for perhaps the next 100 years. And so I would be derelict in my duty if I did not give you the picture as I see it, completely and frankly.

Before I talk about details of the Canadian trade agreement, I want to sketch in a little of the background. For if we get our attention fixed <u>first</u> on the details, we are likely to miss the larger significance of the agreement altogether.

The trade agreement, as you know, involves alterations in the tariff. This time the alterations are designed to benefit agriculture as well as the rest of the public. I am sorry to say that farmers in the past have consistently been the losers whenever there has been any tinkering of the tariff. That was true when the Payne-Aldrich Tariff, with its increased schedules, was passed in 1909, and again when a downward revision of rates was effected in the Underwood Tariff of 1913.

However, as long as this country was a debtor nation and was paying interest to the rest of the world, the farmers' stake in the tariff was less direct and less important than it became later. The farmers had a substantial surplus of their major crops for export. For these crops the price they recieved was the world price, and a tariff protection on such crops was a pure fiction, having no effect whatever on their price, except to a slight extent in the rare years of extreme drought. Furthermore, the sale of American farm products abroad did not depend so greatly as later on imports of foreign goods into the United States. The amount which this country paid to Europe in interest and for services exceeded 500 million dollars a year, and this was paid largely in farm products.

Under those circumstances, the views of farmers concerning the tariff were determined by other considerations. Farmers of the South, adhering to their traditional position, were against the tariff; but farmers of the Middle West were largely for it. In each case they believe the tariff, or the lack of it, helped their markets. The farmers of the South, with big markets for cotton abroad, wanted international trade to be as free as possible; but the farmers of the Middle West and the East as well were less conscious of their dependence on world outlets, and attached greater significance to the domestic market.

The war brought a fundamental change in the situation, which made the tariff of <u>direct</u> importance to all agriculture. However, it was several years before most farmers realized this. When the depression of 1921 hit the farms, one of the first things that occurred to certain influential agricultural leaders was to raise the tariff on farm products. My father, who was then Secretary of Agriculture, believed that the whole farm problem should be considered by the best minds in agriculture, and called a conference in Washington.

At this conference a representative from each of the four great regions of the country was invited to speak on behalf of his region. I remember that the man chosen to represent the Middle West, Mr. A. Sykes, then president of the Corn Belt Meat Producers' Association, felt that, in view of America's changed creditor position, any new tariff legislation which tended to cut down our industrial imports from Europe would also reduce our farm exports to Europe.

My own view was identical with his, and I did not hesitate to express it as vigorously as I knew how. For example, on April 28, 1922, in a magazine of which I then was editor, I wrote:

"Our agriculture has been built up on the basis of expecting European demand to absorb half our cotton crop, one-fourth our wheat crop, and one-tenth of our hog production. Can Europe pay American farmers cost of production every year for 150 million bushels of wheat, 6 million bales of cotton, and 1 billion pounds of pork? It would seem to be an utter impossibility unless Europe sells us two or three times as much in the way of manufactured goods as will likely be let into the United States under the proposed tariff.

"If the proposed tariff really represents a well thought out national policy, it would seem to be essential for us to get to work at once on readjusting our agriculture in conformity thereto. If we make it impossible for Europe to create in the United States the necessary credits with which she can pay cost of production for our wheat, cotton and pork, then it is up to the American farmer to restrict his production of these commodities to his home market."

That was in 1922. With regard to unduly high tariffs, therefore, I speak now with deep and long-standing conviction and I believe with no partisan bias of any kind, when I say that for a creditor nation to raise its tariffs and thus destroy its export agriculture, as this nation began to do in 1922, was insanity.

Farmers and farm leaders were not long in realizing that the Fordney-McCumber Act was not going to pull agriculture out of its depression. The principal farm staples were sold in world markets, and the tariff could not affect their prices. Simultaneously, every time they footed their bills for things they bought, farmers found that the tariff really did help to maintain high industrial prices. They began to talk about "making the tariff effective for agriculture." Soon the McNary-Haugen plan, providing for the segregation of export surpluses through the device of an equalization fee to be paid by the farmer, was brought forward. There followed, as most of you will recall, the five-year-long fight by farmers and their friends in behalf of that proposal.

But in spite of congressional approval, the interests which then dominated the government in Washington managed to block the enactment of this bill, through two successive presidential vetoes.

In the meantime another method for "making the tariff effective for agriculture" had been proposed. This was the export debenture plan. This plan too was blocked, for the same reasons and by the same interests which had thwarted the McNary-Haugen movement.

Then came the Agricultural Marketing Act creating the Federal Farm Board, and the Smoot-Hawley Tariff Act of 1930.

The full damage done to agriculture by the Fordney-McCumber Tariff Act had been hidden by the billions of dollars of loans abroad extended by American citizens in the period from the war until 1929. These loans maintained foreign purchasing power for our products at artificial levels. The policy of extending loans and expanding sales of American products abroad by high-powered sales promotion methods was diametrically opposed to the policy of maintaining and even raising the tariff. To pursue such conflicitng methods at one and the same time was absurd, if not suicidal. Foreign countries could repay the loans only in gold, or in goods and services. There was not enough gold in the world, and with our tariffs and other devices we refused to permit the sale to us of goods or services.

Such a situation could not last. When consideration of the Smoot-Hawley bill, ballyhooed as a measure of agricultural relief, was begun by Congress in the spring of 1929, I was convinced that agriculture was doomed to get even worse punishment than it had already suffered. I wrote in an article published June 14 of that year:

"And now we have offered the Hawley-Smoot Bill of 1929, which definitely discriminates against the farmers of the Middle West and the South more than ever

before. Apparently, both the Democrats and the Republicans believe that the farmer has always been a 'sucker' in tariff matters and always will be. History proves they are right, but looking into the future, I am convinced that the time is coming when the tariff situation will explode with a violence that will make the tariff upheaval of the Taft days seem a mild-mannered tea party."

The Smoot-Hawley bill became a law on June 17, 1930. On the day of its final passage through the Senate over the protests of most of the agricultural representation in both parties, the bill was still hailed by its sponsors as a measure for the revival of both industry and agriculture. I well remember reading with astonishment the eloquent closing appeal by the bill's champion spokesman in the Senate. He pleaded that if the bill were passed, the nation would be on the upgrade "financially, economically and commercially" within 30 days, that we would regain the peak of prosperity within a year, and that thereupon we would again "resume our position as the first and foremost of all the peoples of history in all the essential elements of individual and national greatness."

But in real experience, as contrasted with the imagination of its backers, the Smoot-Hawley Act did not work out that way. The bill actually proved to be the most outrageous instance of selling agriculture down the river to the traditional beneficiaries of tariff privilege. Once again, as in 1922, agriculture had been traded out of its shirt in a game of log-rolling. An unholy alliance of cement, lumber, coal and brick interests -- every one of them having agriculture as a big customer -- finally maneuvered the bill through Congress. Monopolists and others already well fortified by tariff advantages established themselves even more impregnably within the citadel of protection.

What did the farmers get in return? The wheat farmer got exactly the kind of "protection" which had been shown by steadily parallel Chicago and Liverpool prices to be a sham. The corn and hog farmers, the tobacco and rice producers, the prune and grapefruit growers, got the same unreal concessions. There was nothing whatever in the Act for the Southern cotton farmers, except for a few growing long staple cotton. The potato growers who just this year saw their prices sink so low that in some places they barely equalled one-third the Smoot-Hawley bill's so-called rate of "protection" for potatoes, also were given a fine favor on paper, but little if any help in fact.

Of course, not every increase in agricultural rates made by the Smoot-Hawley bill was quite meaningless. Dairymen and wool growers, as well as a few smaller groups, possibly did derive some temporary benefits, which, however, in my opinion were offset by the tremendous damage done to the general welfare which ultimately reacted to destroy thousands of dairymen and wool growers behind their presumed wall of protection.

By and large, the promise of help for agriculture from the Smoot-Hawley Act turned out to be a grim deception.

And moreover, while the purported benefits failed dismally to materialize, fears of agriculture and all other export industries that they would be damaged was swiftly and disastrously confirmed. One country after another among our good customers, alarmed by our new and drastic tariff act, knowing they could not buy from us since the Smoot-Hawley law would not let them sell to us, shot up retaliatory barriers against our imports. Every country in Europe equipped itself with governmental devices whereby and American or other products could be blocked overnight. Tariffs, quotas and embargoes were imposed. Germany raised its tariff on American wheat from

42 cents a bushel to $1 .9, and later to $3.84; France raised its tariff on American wheat from 53 cents a bushel to 85 cents and later to $1.49; and Italy raised its tariff on American wheat from 73 cents a bushel to 87 cents and later to $1.69. Both our exports and our imports slumped drastically. Agriculture, exporting in the pre-depression period from 13 to 16 percent of its products as compared with industry, which exported only 5 to 8 percent of its output, was the principal victim. The outcome was the stagnation of trade and the collapse of agriculture. Finally, when farmers had been forced to quit buying the products of industry, a depression resulted which became not only nation-wide but world-wide. When that happened, the damage to all agriculture was so great that it swept away all the meager advantages which the Smoot-Hawley bill had to offer anybody, including those few groups of farmers who had held some real hopes of tangible benefits.

The drying up of the foreign loans beginning in 1930 had removed the artificial props from the farmers' price structure, and had opened the way for the first time to the full catastrophic effects of high industrial tariffs on our export agriculture.

The Fordney-McCumber Tariff, with its schedules of high rates, and the Smoot-Hawley Tariff, with its still higher rates had both conspicuously failed to help agriculture, and the cry for a tariff that would work for the farmers would not down. The farmers stopped looking up toward ever higher tariffs and began to look sideways toward making effective those which already existed. The result was passage of the Agricultural Adjustment Act in 1933.

The processing tax, which Congress levied in the Agricultural Adjustment Act, was in truth the "farmer's tariff". And yet it could not undo all the damage that the tariff had done to agriculture. Through the processing taxes and benefit payments and the control of production thus made possible, farmers could be given somewhere near the equivalent of a fair price on that portion of their products consumed in the United States. But in the past a considerable slice of their income had come from sales abroad, and unless the volume of these foreign sales could be restored, farmers would have to get along in the future without the added income. There was the possibility that if they were willing to sell their goods at a low enough price abroad, through some device for export dumping, they could regain their lost markets. Even this would be likely to come to an end sooner rather than later, for other countries were in position to retaliate instantly with new trade barriers. Anyway there was no point in farmers continuing to export a large volume of stuff just for the sake of volume, regardless of the price they received, and regardless of the fact that in its essentials such a course would involve giving away the precious fertility of our farms to subsidize foreign industry with cheap food.

All this brought the nation face to face with its foreign trade dilemma as never before. Here was the dilemma; If enough foreign goods were suddenly imported to permit the continued exportation of all of agriculture's surplus beyond domestic needs, the effects on our industrial and economic structure would be highly disturbing. On the other hand, complete retreat by farmers from the foreign market would place the shock of readjustment entirely on them and leave the permanent problem of what to do with 50 to 100 million surplus acres. There was no way to avoid these extremes, each of which would be unfairly harsh to either industry or agriculture, except to choose some moderate middle course, which would mean agriculture and industry sharing the readjustment.

Two measures actually adopted by this Administration have represented an attempt to bridge the gap between the two extremes. The Agricultural Adjustment Act, enabling farmers to cooperate in restricting production of their crops, was an attempt to bridge the gap from one direction. The Reciprocal Tariff Act, authorizing the President to negotiate trade agreements with foreign countries, was intended to bridge this gap from the other direction. The one measure called for adjustment by farmers, while the other called for adjustment mainly by industry. The two measures were not inconsistent with each other, but were complementary to each other. The real and glaring contradiction exists in the thinking of those who want to solve the American problem by removing all controls from production and by dumping American goods on the foreign market, regardless of the price received, while at the same time preventing foreign goods by higher tariffs and embargoes from coming into this market. Such a contradiction can be evaded temporarily, but only temporarily, by vast loans to foreign nations or by accepting vast quantities of gold from them. Inasmuch as we can not eat, wear, or otherwise enjoy gold or paper promises to pay, it can be seen that even when this contradictory program is made to work temporarily, the net result is to impoverish the American people by shipping as much stuff as possible--including our precious soil fertility--out of the country and shipping as little as possible into the country.

The government is not proposing any such contradictory or impossible program, but it is attempting to bridge, in a sensible and moderate way, the gap between the two extremes I mentioned a moment ago. Progress in the direction of adjustments by farmers has gone forward rapidly and effectively under the Agricultural Adjustment Act. Progress under the Reciprocal Tariff Act has not been so rapid, because not only our nation but foreign nations are involved, and the problems of making trade adjustments suitable to both parties involved in an agreement are numerous and complex.

Thus far reciprocal agreements have been concluded and are in effect with Cuba, Haiti, Belgium and Sweden. Another, with Brazil, goes into effect January 1, the same day as the new Canadian agreement. Still another has been negotiated with Colombia, but as yet has not been ratified by the Colombian government.

Among those actually in effect, the Cuban agreement has been of most interest to American farmers, and is the only one that has been in effect long enough to permit measuring the results. In return for lower duties on sugar, this agreement has permitted our lard exports to Cuba to double in volume and treble in value in the first year of its operation. Exports of other pork products have also increased greatly, while shipments of potatoes, onions and other vegetables, rice and flour have all shown splendid increases. The dollar value of shipments of the farm products on which principal concessions were received by us jumped by nearly 175 percent, from $3,017,000 to $8,275,000, while our exports of other agricultural commodities also showed good results from the increase in Cuban purchasing power brought about by the agreement. All this was in spite of the fact that our 1934 drought reduced our capacity to export during the period in question.

In the Belgian agreement, Belgium made concessions on a number of agricultural products, chiefly fresh and dried fruits, increased the quota on meat from 55,000 to 2,300,000 pounds, and permitted additional imports of lard. Belgium also made concessions on a number of industrial products. The United States, on its part, agreed to reduce duties on 47 products, including plate glass, cement, various iron and steel products for which Belgium is the principal source of supply, and certain manufacturers of flax. No reductions of consequence were made by

the United States on farm products.

The Brazilian agreement provides for maintaining coffee on the American free list, and reduces the duty on Brazil nuts. Brazil, besides making concessions on manufactured products, agrees to continue apples and pears on its free list.

The agreement with Sweden brought concessions on American fruits, as well as on some nonagricultural items, in return for which the United States made concessions on raw materials needed in American industry, and several specialty products of Swedish industry.

Conversations have been started for an agreement with the United Kingdom.

In the meantime, an agreement has been negotiated with Canada, the nearest and best customer of the United States.

Prior to enactment of the Smoot-Hawley Tariff, we exported to Canada products totaling from 600 million to 870 million dollars a year, and imported 500 million dollars' worth. Of our exports to Canada, about one-seventh, or 100 million dollars' worth, were agricultural.

After the Smoot-Hawley Act had brought retaliatory measures from Canada, the value of our exports to that country fell to 230 million dollars and the value of our imports from Canada sank to 175 million dollars. Our agricultural exports to Canada, which had amounted to 100 million dollars, shrank to around 40 million dollars. The new agreement attempts to undo the terrific damage done by the Smoot-Hawley Act.

Because Canada is a country which exports large quantities of farm products, some people assumed, even before the terms of this agreement were made public, that a flood of such products would be permitted to flow into the United States, displacing large quantities of American farm products, wrecking the American farmers' prices, and making necessary additional cuts in their acreage.

Just within the past few days an idea has been advanced that the agreement represents extremely one-sided concessions to Canada. By lumping forestry products along with farm products, the impression has been created that at 1929 values the United States had made concessions on 258 million dollars of agricultural imports, or that 83.8 percent of our concessions were in agricultural products. As a matter of fact, the true figure is not 83.8 percent, but is only 10.7 or possibly only 2.6 percent, depending upon how you look at it. The greater part of the 83.8 percent figure consists of wood pulp and news print, which were on the free list. I don't think the American farmers are going to worry because wood pulp, and news print, accounting for three-fourths of the 83.8 percent, remain on the free list. More than half of the remainder of the 83.8 percent figure consists of lumber, on which the tariff and excise tax together have been reduced from $4 a thousand to $2, but with a quota to protect the lumbermen of the Northwest. Now, if the farmers are like they were when this lumber tariff was imposed in 1930, I don't think they will weep over this reduction, and I don't believe agriculture will relish being made the shield for Western lumber interests' attacks on the agreement.

When the agreement is calmly examined, both broadly and in detail the extraordinary skill with which it has been devised becomes apparent. In appraising it, suppose we consider in turn its effect on the two great divisions of American agriculture--first, that part of American agriculture which ordinarily sells on export markets, and second, that part which is dependent almost entirely on domestic consumers for its outlets.

No concessions at all have been made to Canada by the United States on those commodities which sell on world markets--wheat, cotton, tobacco, and pork. As for the other commodities, for which domestic demand sets the price, the concessions that have been made are not sufficient to have appreciablу adverse effects upon any important group of American farmers.

On cream, the United States agrees to reduce the duty from 56.6 cents a gallon to 35 cents a gallon on a quota of 1-1/2 million gallons. The amount of cream admitted at the reduced figure represents one-tenth of one percent of the annual milk production in the United States, and eight-tenths of one percent of the milk produced in the North Atlantic States where most of the imports from Canada occur. That is, if you think of the total production of milk in the United States as enough to fill one thousand cans, the amount of cream admitted from Canada or elsewhere at the reduced rate would be the equivalent of only enough milk to fill one can. Or if you think of the total production of milk in the North Atlantic States as being enough to fill one hundred cans, the amount admitted from Canada or elsewhere at the reduced rate would be only one can, four-fifths full. The 1-1/2 million gallon quota compares with actual imports of nearly 3 million gallons in 1929, and is only a minor quantity when compared with the ordinary amount of fluctuation in dairy production from one year to the next.

American dairy farmers may argue that it is not the quantity of cream admitted at the reduced rate that counts, but rather the effect on the price structure of dairy products in the United States. All economic experience proves that the effect on American cream prices of so small a volume of imports will be negligible.

A duty reduction is also made on cheddar cheese. The reduction is from 7 cents a pound or not less than 35 percent ad valorem, to 5 cents a pound or not less than 25 percent ad valorem. This is exactly the same rate that was in effect prior to 1930. Imports of cheese from Canada even under this lower rate and under conditions of prosperity in the United States never reached an important percentage of our production. So far as I can see, there is no reason to think that the imports of cheese will return even to the level prevailing prior to 1930 unless there is a very substantial rise in the price of cheese in this country.

The United States agrees also to reduce the duty on cattle weighing more than 700 pounds, from 3 cents to 2 cents a pound, but the number of animals permitted to enter at the reduced rate is limited to three-fourths of one percent of the average total slaughter of cattle and calves in the United States during the period from 1928 to 1932. This percentage represents 155,799 head, and the number is considerably smaller than actual imports prior to 1930, when the duty was 1-1/2 cents.

Reductions in the duty on calves and dairy cows are made on limited quotas, which, as in the case of cattle, have been carefully calculated to keep imports from going beyond the level of the period preceding 1930.

On certified seed potatoes up to a quota of 750,000 bushels, the United States agrees to reduce the duty from 75 cents a hundred pounds to 60 cents for the months December to February, inclusive, and to 45 cents from March to November, inclusive. The quantity of 750,000 bushels represents about 5-1/2 percent of the average annual United States production of seed potatoes during the last five years.

There simply isn't anything to the bogey of the "most favored nation" clause as raised against the Canadian agreement. Cattle over 700 pounds in weight simply do not come to any extent from any country but Canada, and if they did, the 156,000 quota would still serve as an over-all limitation. Cream does not come in any volume from any country but Canada, and even if it did, the cream quota would serve as an over-all limitation. Neither are seed potatoes likely to come in volume from any place but Canada. No, my friends, the difficulty is that some people instinctively infer that in any agreement with Canada American farmers are certain to get the worst of it. They can't understand that we now have an administration that is definitely friendly to agriculture and that it is willing and capable of showing this friendship even under difficult situations.

Other agricultural products upon which the United States makes duty reductions to Canada consist of certain fruits and vegetables, poultry, grass seeds, hay, oats unfit for human consumption, horses, and maple sugar. In none of these cases are imports in prospect that will have materially adverse effects upon American producers.

Now, when the agreement is thus examined in detail, what becomes of the idea of a great flood of Canadian farm products coming over the border? It evaporates.

I have dwelt in detail on the concessions made by the United States on Canadian farm products, because it is these concessions which seem to be disturbing some of our farmers and farm leaders. Over against these must be placed the very real gains assured American farmers by reason of the agreement, which in my considered judgment so far outweigh the losses that the net advantage to our agriculture from the agreement as a whole is very much worth while. This is especially true when it is considered that American farmers themselves are the sole consumers or else the principal consumers of several of the products on which rate reductions are made, as for example, seed potatoes, clover seed, and feeder cattle.

Substantial reductions are made in the Canadian duties on meats and meat products, including especially pork and lard. These reductions mark new gains for a settled policy of reopening major outlets for American pork products.

A significant angle of the reductions in duties on pork products by Canada is the fact that this opens the way for our farmers to get back a bigger share of the British pork market. The United States share of this market was cut in 1932 from 21 to 8 percent, while Canada's share was increased. But it so happens that Canada has not used its full quota. The new agreement will permit American pork to go to Canada to replace Canadian pork exported to Great Britain, thus in effect permitting increased exports of American pork to Great Britain. With our large corn crop of 1935 and the prospect of increased hog production, the possibility of shipping greater quantities of our pork to Canada becomes of major importance.

Important benefits will accrue to growers of fruits and vegetables in the Pacific Coast States, Colorado, the South, and to some extent the Northeastern States along the border. Under the agreement Canada places potatoes on the free list.

Our grain growers, who feared that they would be subjected to new Canadian competition, find instead that they have made substantial gains through the agreement. Duty reductions have been made by Canada on practically all grains and grain products, and some of these reductions place the duties at levels below those which prevailed in 1929. Canada is ordinarily our best market for all grains except wheat, and concessions now made will open the way to recovery of a very beneficial trade in these commodities as soon as supplies reduced by the drought are replenished.

Duty reductions are also made by Canada on a number of other miscellaneous products, including hides and skins, soy-beans, timothy seed and broom corn.

Furthermore, there is no chance that any of our own adjustment programs will be wrecked by the Canadian agreement. This is assured by a clause which provides that if either country undertakes to control the domestic production or marketing of any commodity, it may also limit the quantity of imports of that commodity.

Farmers of the United States will unquestionably gain from the increased exportation of manufactured products to Canada. Suppose that exports of these products are increased by 300 million dollars -- a conservative figure in view of our trade with Canada in the past -- and that half of this amount, or 150 million dollars, goes into payrolls. This would mean definite and substantial gains in the cash income of farmers. Studies have shown that in the past an increase of 150 million dollars in United States factory payrolls added from 4 to 6 million dollars to the income of farmers in each of such states as Illinois, Wisconsin, Minnesota, Nebraska, Missouri, Iowa and Ohio.

The increases in farm incomes resulting thus indirectly from the Canadian agreement will accrue largely to the producers of livestock products -- the very same groups that are concerned over the concessions on Canadian cattle, calves, cream and cheese.

In other words, the Canadian agreement will bring substantial improvement in the domestic market for these products -- an improvement that greatly outweighs the very slight disadvantage resulting from the limited quantity of imports of these products. Agriculture, instead of having 100 percent of a poor market, will have perhaps 99-1/2 percent of a greatly improved market. I think there is no doubt that farmers will be far better off with a good market, slightly shared.

For that matter, I wonder whether dairymen would say their industry was better off in the period from 1923 to 1927, when annual butter imports averaged over 13 million pounds, or in 1932 when these imports were only one million pounds. And I wonder also whether cattlemen thought themselves more prosperous back in 1927 when imports of fresh beef were large but prices of cattle and calves averaged over $13 a hundred in Chicago, or in 1933-34 when fresh beef imports had declined about 99 percent, but prices were down to around $5 a hundred.

Now, there are some farmers and sincere friends of agriculture who argue with conviction that, since we already have a surplus or potential surplus of most

agricultural commodities produced in this country, we ought not to make any concessions whatever in the duties on these products. Some even go so far as to propose that competing farm products be excluded from this country altogether, thus giving our own farmers 100 percent of the home market.

I understand the feeling of farmers that agriculture deserves to have the home market to itself. But I wonder if they have thought the matter clear through. I wonder if they perceive what the inevitable effect on themselves would be.

Let us consider this proposition for a moment and see where it leads. Experience in the past has demonstrated that whenever agriculture has obtained an additional measure of protection, real or fictitious, for itself, industrialists have seized upon such increases as an excuse to boost their own tariffs higher and higher. Never yet has agriculture been able to play successfully in the game of trading and trickery that surrounds the making of a tariff bill. Every time the farmers have tried it they have been divided, outmaneuvered and defeated in the end. The betrayal of agriculture in the Fordney-McCumber and Smoot-Hawley tariff acts, which I have already described, should leave no doubt in the minds of farmers as to what would happen if they risked that game again in a chance at all of the home market. If farmers insist on 100 percent of the home market for themselves, industrialists will do the same. And if all imports of both agricultural and industrial products are shut off, there can be no exports either. Agriculture not only would sacrifice its chance to win back the foreign markets it has already lost, but would be sure to lose the markets that remain. And permanent and complete loss of our export markets would be even more damaging to American agriculture than to industry, because agriculture has relied upon exports for so much larger a share of its total income.

If adoption of high tariffs and following the path toward isolation were a boon to farmers, then why was it that the status of agriculture under the Fordney-McCumber Tariff Act was worse than it had been in the period of the Underwood Tariff, and under the Smoot-Hawley Tariff was even worse than it had been in the Fordney-McCumber period? Take the duty on feeder cattle, for example. From 1913 to 1922, feeder cattle were on the free list. From 1922 to 1929, the duty was 1-1/2 to 2 cents a pound, depending on the weight. After 1930, the duty was 2-1/2 to 3 cents a pound. Now, strange as it may seem, the prosperity of agriculture has been in inverse ratio to the size of those duties! This may have been largely due to other forces, but, at least, the increase in those duties certainly failed to keep agriculture from going down the toboggan, and the comparatively modest retreat to a duty of 2 cents on cattle of more than 700 pounds, safeguarded with a definite quota, is no earth-shaking event.

Even the branches of agriculture which seem to benefit from a tariff are hurt eventually when exports of other farm products are prevented. The dairy farmers, for example, have seemed to benefit at times from the tariff on butter. But when other farmers were forced out of production of export products, such as cotton, tobacco, pork and wheat, they began to turn to dairying, and so the dairy farmers suffered too.

No, if agriculture insists on a policy of exclusion, it is bound to be the loser, and producers of those farm products which are sold at the present time exclusively on the domestic market, and are apparently protected by tariffs, will lose also, with a delay of only a year or two.

There is another course which American agriculture may follow. This course, predicated upon our taking our place in the neighborhood of nations, leads toward gradual and sensible increase of international trade, including the export of American farm products. I believe almost all farmers and farm leaders are agreed on the desirability of retaining or regaining their export markets, though of course there are differences of opinion as to the method.

And agriculture has a right to expect that it will not be the victim in downward tariff revision, as it was when upward revisions were made. If agriculture is to be really helped by the reciprocal tariff policy, increased imports must consist largely of manufactured or industrial products. This would help agriculture in two ways. First, it would build up dollar exchange abroad with which other nations might buy more of our farm products. Second, it would tend to lower the prices of things farmers buy. For example, the slight reduction in our lumber tariff provided in the Canadian agreement will make it somewhat easier for farmers as well as city people to construct the buildings they need. The stimulus to the building industry given by lower prices will probably bring such increased volume of business that in the long run even the domestic lumber producers will be helped rather than hurt. Lowering of tariffs on some industrial products would restore competition where monopolistic conditions now prevail, and would bring more production at lower prices. In fact, the lowering of tariffs would be one of the most effective ways I can think of to enforce the anti-trust laws.

But the making of reciprocal trade agreements is a practical matter. Other nations as well as our own are parties to them. If agriculture should insist that not even the tiniest concessions on importation of farm products should be made, then I am very much afraid that the negotiation of such agreements would become almost impossible.

A moderate suggestion has been advanced that a kind of acreage balance sheet should be kept. Each agreement, according to this view, would be studied from the standpoint of its effect on our farm acreage. We would make sure that the acreage displaced by increased imports of farm products would at least be balanced by the acreage needed for production of the increased exports. At first thought, this may seem like a good idea, and in fact it might, to some extent, be applied. The trouble is, however, that some commodities like fruits and vegetables require only a small acreage in proportion to their value, while commodities like cattle and sheep produced on grazing land may require an exceptionally large acreage. Hence in a general way a computation of this sort would be rather unsatisfactory. Furthermore, I do not believe that farmers are primarily interested in <u>acres</u> as such. What they are concerned with is <u>income</u>. And the trade agreements should be scrutinized most closely to see what the effects on farm income are likely to be.

While I am on the subject of imports of farm products, I would like to call your attention to the fact that the unusual imports of a number of farm products caused by the drought have already fallen off. Comparing October with April, the trend of imports in 1934 was sharply upward for butter, canned beef, barley, corn, oats, wheat and hay. But comparing October with April in 1935, the trend has been reversed for every one of these products except corn and wheat, and imports of butter, barley, oats and hay have virtually ceased altogether. The normal crop of corn in 1935 is now beginning to be marketed and sizeable imports of corn will undoubtedly soon be a thing of the past. Imports of wheat will continue into next year because of rust damage to the 1935 hard spring wheat crop. And may I mention in passing that there was no control program for spring wheat in 1935.

Processors and others who for their own reasons always seek to distract farmers' attention from the real interests of agriculture, have made a great outcry over such imports as have come in during the last year, and have asserted that the adjustment programs, by restricting production at home, were opening the way to great increases in foreign competition. Now that the imports caused by the drought are falling off -- imports which never were more than 2 percent of the drought loss -- I expect that these same wolves in sheep's clothing will switch their attack to the imports of wheat, and such small amounts of cream, cattle and seed potatoes as are admitted at reduced rates from Canada. Admitting right here and now that the Canadian agreement is not perfect, and welcoming constructive criticism of it from any source, I want at the same time to assert my conviction that the other kind of attack -- the bitter, venomous kind -- is not inspired by any desire to help the farmers of this country. I believe that such unbridled assaults are inspired rather by the same interests which, working through both political parties, have fought every attempt by the farmers to gain economic fair play. They are the same implacable enemies of agriculture that fought the McNary-Haugen bill and the debenture, put through the Smoot-Hawley Act and are now out to kill off the processing taxes and the adjustment programs. They are for effective tariffs for industrialists but against giving agriculture the same degree of protection. They are equally enemies of the farmer and of the consumer.

The agreement has lately been assailed in this country on the ground that it would mean more abundance and greater prosperity in Canada. This incredible appeal to prejudice is baldly made by the same Smoot-Hawleyites who are dodging all responsibility for our depression on the theory that it originated wholly outside the United States, making us the victims of forces that sweep over boundary lines. I now call attention to the simple economic fact that, if depression has international aspects, so has recovery. Moreover, Canadian and American figures on both employment and industrial activity prove beyond doubt that there is the closest kind of parallel between economic conditions in Canada and the United States. So, if the agreement is followed by more abundance and more prosperity for either one of the nations which are parties to it, the common causes of that improvement will inevitably mean improvement also for the business and agriculture of the other.

The true objectives of agriculture's foes are betrayed by their own tactics. They oppose the farmers' adjustment programs which are designed to offset the loss of foreign markets. But with equal vigor they also fight the trade agreement policy designed to regain foreign markets. They seek to foment consumer resentment against price increases resulting from the fact that, for once in his life, the farmer now has some tariffs that are actually effective, and American farm prices are actually above world prices. And then they tell the farmer he should have his own home markets without world competition or world prices. Why should any group of farmers or consumers be fooled by such two-faced arguments? Why should agriculture pull the chestnuts out of the fire for its traditional enemies?

Agriculture's real and continuing problem is not now to stop the little trickle of competing farm imports, but how to move its own great surpluses into exports. For three or four years, unusually short crops of corn and small grains, resulting from abnormal weather conditions, have obscured the picture. I am afraid farmers do not realize what the pressure of surpluses may do to prices of their products within the next year or two.

Normal yields of wheat, for example, on the acreage in prospect for 1936,

would bring a crop of more than 800 million bushels, which would mean an exportable surplus of 150 million bushels. Exceptionally good yields could bring a crop of around 900 million bushels. With normal weather conditions for their grains, American farmers will be plunged back on the world market, even though there is a more aggressive agricultural adjustment program than at the present time. The problem then once more would be, how to dispose of a big exportable surplus. If outlets could not be found, the only way to prevent new carryovers comparable to those of 1932 and 1933 would be for farmers to make new and drastic cuts in the acreage of their export crops.

It is the chronic problem of surpluses and the continued need for export markets that makes the question of farm support for the reciprocal tariff policy so vital. As I said before, there is room for differences of opinion concerning the best way to restore foreign trade. But I am sure that farmers are <u>not</u> interested in makeshift arrangements that will give them temporary export advantages and then leave them worse off than before. They had a taste of that during the decade of the twenties when they lived in a fool's paradise, not realizing the pit which had been dug for them. They <u>are</u> interested in fundamental readjustments in our trade relationships with the rest of the world that will give them an opportunity to export reasonable quantities of their products year after year. And so I feel that the way in which they receive the Canadian agreement may have far-reaching effects on their own fortunes for a long time to come. If they permit their attention to be fixed on certain details of the Canadian agreement and neglect the larger picture, they may take a position which will wreck the incipient movement for a return to sane trade relationships throughout the world.

But, if on the other hand, they look upon the Canadian agreement as one important link in the chain of new international friendship, and if they resolutely insist on the forging of other links which directly and substantially serve their own interests, they will be working toward gradual restoration of agriculture and the well-being of the entire nation.

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THE AGRICULTURAL ADJUSTMENT ACT AND NATIONAL RECOVERY

Paper by Chester C. Davis, Administrator, Agricultural Adjustment Act, for delivery before joint session of American Farm Economic Association and American Statistical Association in New York City, December 27, 1935.

U.S. Department of Agriculture, Agricultural Adjustment Administration, Washington, D.C.

HIGHLIGHTS

THE POLICY SPECIFICALLY laid down by Congress in the Agricultural Adjustment Act was to promote general recovery by promoting farm recovery. We know that the country accepted this identification of the farm problem with the national problem. Non-farmers, as well as farmers, expected to benefit from it. Non-farmers who thought the matter through expected that the cost of the adjustment programs to them in the form of higher prices of food and fiber would be counterbalanced by increased industrial employment and trade.

WITH ENORMOUS PHYSICAL surpluses of agricultural products piled up, and with a large portion of agriculture's export markets closed, agriculture suffered from a maladjustment much more deep-seated than urban industry. Increase of purchasing power in the cities would not have melted away the accumulated farm surpluses nor would it have cured the situation which had been brought about by the loss of export markets. Consequently agriculture would have been less able to take advantage of a rise in non-agricultural purchasing power than the rest of the nation was able to profit from an equal increase in farm purchasing power.

IT IS DIFFICULT TO overestimate also the contribution made to general recovery by the improvement that restoration of farm income effected in the credit structure. Non-farmers have an enormous investment in farm mortgages and other evidences of farm debt. Once it became clear that improvement in farmers' ability to pay would prevent the investment values from being wiped out, lending institutions gradually began to resume their functions. Revived farm purchasing power helped to restore stability in the financial system, and to protect the integrity of an enormous investment. The restoration of agricultural solvency was essential to national solvency, and this the farm recovery measures helped to achieve.

THE CITIES FELT THE beneficial influence months before the agricultural revival exerted an appreciable effect on living costs. When retail prices rose eventually, the community was prepared to carry them. It is highly significant that industrial payrolls and the average factory worker's earnings have increased since 1933 in about the same proportion that farm incomes have increased.

THE DISPARITY WHICH existed at the beginning of 1933 between agricultural and non-agricultural prices called for one of two courses of action. Either the prices paid by farmers had to be lowered or the prices received by farmers had to be raised. While the farmers were selling in a free market, in which supply and demand determine price, the industrialists were selling to a large extent in an administered market in which price and demand determine supply.

THE POINT TO BEAR in mind is that balance of industrial and agricultural prices was vital to the recovery process, and no way was proposed to restore that balance through the lowering of industrial prices.

THE MOTOR INDUSTRY is apparently in perfect agreement with agriculture that vast overproduction, cut-throat competition and demoralization of prices constitute a condition to be shunned. In fact a principle on which all shcools of economists seem fairly well agreed is that there must be balance and proportion between the different branches of production.

AS THE ECONOMIC system comes back into balance, production increases. In maintaining its controls over produc tion, in careful balance with demand, the automobile industry is not seeking scarcity but the objective which agriculture also has in view. That objective is controlled expansion--expansion in step with growth of opportunity to dispose of its products at prices maintained in fair relation to other prices. It is the expectation of agriculture to increase its output with all the rapidity required to keep in step with expanding domestic and foreign outlets. By retaining controls that prevent accumulation of vast surpluses and demoralization of prices, agriculture hopes in the future to maintain farm income at levels which will permit sound farming practices, improvement of the farm plant and conservation of soil resources.

THE AGRICULTURAL ADJUSTMENT ACT
AND NATIONAL RECOVERY

I have been invited to discuss today the relation of the Agricultural Adjustment Act to National recovery. This is so vast a subject that I could not hope in one brief paper to deal with all its ramifications. Therefore, I will confine myself to a few of its outstanding aspects.

The policy specifically laid down by Congress in the Agricultural Adjustment Act was to promote general recovery by promoting farm recovery. On that basis the general public accepted the Act and the farmers cooperated with each other and with the government in accordance with its provisions.

We know that the country accepted this identification of the farm problem with the national problem. Rarely has an act of such moment encountered less opposition at its birth. Non-farmers, as well as farmers, expected to benefit from it. Non-farmers who thought the matter through believed that fairer prices to farmers would be bread cast upon the waters. They expected that the cost of the adjustment programs to them in the form of higher prices of food and fiber would be counterbalanced by increased industrial employment and trade.

Many persons agree that the Triple A has fulfilled one of its objects. It has helped to increase the purchasing power of the farmers. You are all familiar with the statistical measurements and I need not elaborate upon them. One or two of the outstanding facts may be cited. Present indications are that the farmers' gross income from production in 1935, and from rental and benefit payments, will exceed $8,000,000,000, as compared with $5,337,000,000 in 1932. For the United States as a whole the cash farm income from marketings plus rental and benefit payments was 48 percent greater in 1934 than in 1932. It was 13 percent higher in the first half of 1935 than in the first half of 1934. Since 1932 the farm cash income, after paying fixed charges, has advanced about 85 percent. In 1933 and 1934 the producers of cotton, wheat, and tobacco benefited conspicuously. In this same period the corn-hog program began to rescue producers of these commodities from the pit of price depression. In 1934, the operations of the Act softened the effects of drought in the stricken areas, and in 1935 hastened the progress of producers back toward desirable levels of production. Although it cannot be said that the increased farm income has been uniformly distributed, all sections have benefited materially.

Needless to say the operations that made up the Agricultural Adjustment program are not to be credited for the whole of this improvement. Other national policies have contributed greatly, notably the devaluation of the dollar and farm credit relief. Something must be allowed also for the country's natural recuperative powers. The drought, by adjusting supplies more radically than desirable either from farmer or consumer viewpoint, also had substantial effects in accelerating price increases of certain commodities, particularly livestock. The combined effect of the AAA and the drought on prices, through the adjustment of supply, has done more than the rental and benefit payments to increase the aggregate income of agriculture. It is difficult to measure the relative influence of the different causes of farm recovery, and to indicate exactly the

weight that should be attributed to the Triple A; but fortunately that is not my problem today. In this connection I simply wish to establish the fact that the Agricultural Adjustment Act has certainly accomplished one of its declared objects; under it, farmers have increased their incomes.

My task is to inquire into the extent to which the AAA has accomplished its other object. Has it contributed to national recovery as well as to farm recovery? There is evidence that it has, although to prove this mathematically and beyond a shadow of doubt would probably be impossible. Improvement in consumer buying power in 1933 developed first in the agricultural areas, after farm income had begun to rise. Shipments of industrial goods to agricultural areas increased. There is a close correlation between the flow of income in the rural areas and the flow of rural business. As farm buying power improved, rural buying increased; and sales of industrial products in rural areas increased proportionately more than in urban areas. L. H. Bean, economic adviser of the AAA, recently presented these facts with adequate statistical detail in a review which the Agricultural Adjustment Administration issued as a press release on December 20. While total retail trade for the United States was still shrinking, being only $25,000,000,000 in 1933 as compared with $25,600,000,000 in 1932, rural retail sales rose from $3,900,000,000 in 1932 to $4,700,000,000 in 1933. In 1934, rural retail sales advanced farther, to an estimated $5,800,000,000 in 1934, while total retail trade rose to $28,500,000,000. According to preliminary estimates, rural retail trade for 1935 will increase to $6,900,000,000 and total retail trade to $30,700,000,000. There is no question that, in point of time, a measure of industrial recovery has followed farm recovery; nor that increased rural buying has been an important part of the general improvement. But a time sequence is not necessarily proof of causal relationship.

Undeniably the increased purchasing power which the farmers gained through their programs came from higher raw material costs which consumers as a whole paid. But how can we be certain that the redistributed buying power, after reaching its new location, came into the market for factory goods sooner and more abundantly than it would have done if it had never been transferred from the cities and towns to the farms? That is the crucial question, and it is one that cannot be answered with statistics alone. It involves too many intangibles. When farm income increased through the operation of the Triple A and from other causes, farmers bought clothing, household supplies, automobiles, and farm implements. But it might be argued that the same money, if it had been retained in the cities, would have come into the market for an equal quantity of goods and services. A contention might be made that in such a case the recovery cycle would have started at a different point; that it would have begun in the cities and spread to the country instead of beginning in the country and spreading to the cities. Following such a line of thought, it might appear that in this way the improvement would have been just as great, though I personally think as I will presently explain, that there are important reasons why this could not have been true. But the point I am making here is that statistics alone will not suffice to prove either case, and in my discussion I will not rely exclusively upon them. We need to ascertain the facts, estimate their value, and then reason from them to what seems to be the sound conclusion.

There are three possible conclusions which might be reached: (1) that the redistribution of income in agriculture's favor neither increased nor decreased the total spending, and had therefore no effect on industry other than to

influence the choice of consumable goods; (2) that the AAA decreased the total spending, or, in other words, that recovery would have been further ahead had the proportion of the consumer's dollar spent for farm products been left unchanged; and (3) that the AAA increased the total spending.

One other possibility I will not discuss. That is, that by some special governmental device purchasing power might have been transferred from the farms to the cities instead of from the cities to the farms. Such a measure was not even suggested by anyone for the simple reason that by the beginning of 1933 agriculture had already been drained of its buying power to the point of exhaustion.

Still another conceivable alternative might have been, without transferring purchasing power from the farms, to confine recovery measures exclusively to attempts to increase purchasing power first in the cities, with the idea that it later would spread to the farms. With enormous physical surpluses of agricultural products piled up, and with a large portion of agriculture's export markets closed, agriculture suffered from a maladjustment much more deep-seated than urban industry. Increasing of purchasing power in the cities would have helped agriculture to some extent, it is true; but it would not have melted away the accumulated farm surpluses nor would it have cured the situation which had been brought about by the loss of export markets. Consequently agriculture would have been less able to take advantage of a rise in non-agricultural purchasing power than the rest of the nation was able to profit from an equal increase in farm purchasing power. In view of the situation I have just described, Congress and the nation assumed with almost complete unanimity in the Spring of 1933 that agricultural recovery was an indispensable part of national recovery. The two additional alternatives I have mentioned were not given serious consideration then, and I do not believe they need to be given further consideration now.

Of the three remaining possible conclusions which I have outlined, I shall try to show that the third is the most tenable one. There seems to be basis for the belief that the income redistribution which took place in agriculture's favor after 1933 started recovery sooner, and along a broader front, than any other redistribution would have done.

I am frankly assuming, you see, that some kind of a redistribution of income was inevitable. Suppose the Federal Government had not helped farmers to obtain a larger share of the national income. It does not follow that the distribution of buying power would have remained unchanged. No one knows how far the continuing deflation would have gone, nor the extent to which purchasing power would have been redistributed thereby. The maintenance of very low prices for agricultural products might have permitted further drastic wage cutting; and the resulting redistribution of income in favor of employers would undoubtedly have influenced tremendously the character and the volume of the national spending. Possibly such a redistribution of the available income would have encouraged lack of spending, or saving if you prefer the term. It might have encouraged investment, or in other words the purchase of capital goods. It would certainly have affected spending in a manner different from that in which the actual redistribution did affect it.

I shall try to show that the income redistribution affected through the Triple A started general economic recovery; that it caused more total consumption,

and therefore created more employment than any other redistribution of the national income would have caused, and that failure to divert more income to the farmers would have delayed national recovery indefinitely. The first point which I must establish is that the help given to agriculture did not leave the total volume of national spending unchanged, as seems to be imagined by those who hold that you do not affect spending by merely redistributing income, or, in other words, that the only way to get more spending is to get more income. It should be obvious that spending may increase even though the total national income remains constant, if the income circulates more freely among those who specially need goods.

Fundamentally, the idea that the redistribution of income in agriculture's favor has no effect on total spending assumes that the available national income will be spent somehow in any case. Concretely, it assumes that what the city dweller does not spend for farm products he will spend for other goods. It is true enough that income and spending balance eventually. Income is derived from production, and sooner or later production and consumption balance. But the consumption of certain goods may be long delayed, and buying power may be hoarded. Only if savings were impossible would it be logical to contend that the distribution of income cannot affect the expenditure. By shifting buying power to the farmers the national Government, I believe, caused this buying power to come into the market for non-agricultural goods and services more fully than it would have done if the distribution of income had been decided exclusively by a struggle between workmen and their employers.

Certainly the increased income that went to the farms did not all come back into the industrial market. Much of it went to pay interest, overdue principal on farm debt, taxes, and other fixed charges. That portion of the national income diverted to agriculture might, in the absence of such diversion, have found its way largely into investment, or into savings. But diverted to farmers, this income, as the evidence shows, has resulted in a heavy volume of purchases of manufactured goods. Mr. Bean finds that approximately 40 percent of the 1932-34 increase in factory employment can be attributed to the improvement in rural trade. He calculates that approximately half of the 40 percent increase came directly through increased buying by farmers and the other half from buying in rural communities whose income depends largely on farm conditions. Rural retail trade approximated $5,800,000,000 in 1934, as compared with $3,900,000,000 in 1932. Sample studies have indicated that in the first year after the farm program was launched, shipments of manufactured goods used by farmers in farm production increased 75 percent, and shipments of all industrial and manufactured goods to agricultural areas increased nearly 40 percent.

When we consider the extent to which purchasing power was remaining inert in savings prior to 1933, I believe we cannot doubt that a still larger share of the shrinking national income would have been left unspent if the farmers had not obtained more nearly their fair portion. I do not wish to elaborate this point unduly. Nevertheless, it is a vital one. The idea that the farmers benefited chiefly at the expense of the poorer urban groups assumes that if these groups had not paid higher prices for farm commodities their total real income would have been larger. This assumption rests on two very questionable propositions: (1) that in a period of tremendous competition for jobs they would have been allowed to retain the benefit of low farm prices, and (2) that a different redistribution of the available income would have brought about

just as much reemployment as did the shift of purchasing power to the farmers. In a time of depression when there is a big surplus of labor, wages tend to adjust themselves to the cost of living; therefore in the long run low farm prices permit and encourage low wages. It is not likely, if wage costs had declined, that the increased industrial profit would have gone back immediately into industrial production, for with agriculture practically out of the market the demand for industrial goods would have been low and falling, and there would have been small incentive for investment in capital goods.

Now I shall go on to establish, if possible,my other points. I think we may infer that the Government farm program by giving the farmers more income caused more total spending, because the farm group needed goods so desperately. The farmers needed goods even more than they needed to pay debts or taxes. With farm prices down below pre-war, as they were early in 1933, agriculture was practically indigent. Its deferred demand was enormous. By restoring farm prices more nearly to parity, the AAA helped to restore the rural-urban circulation, enabled a reciprocal interchange to take place once more, and broke the economic deadlock. The operation helped to move the wheel off dead center.

Furthermore, the restoration of farm prices supported other prices. This was essential to the revival of trade. With prices falling, and with prospects of further rapid decline, everyone hesitates to buy. This is paradoxical but true. The process of price decline, if sufficiently long continued, encourages hoarding. Prices do not cover costs, and production declines generally. Eventually panic ensues. The first essential of business recovery is confidence in the price level. Ours is a price economy, and without confidence in the general price level business lags. By increasing and stabilizing farm prices, which form an important part of the entire price structure, the AAA helped to stabilize all prices. Furthermore, the increased buying by farmers brought fresh demand for non-agricultural goods and helped to stabilize their prices in this way also.

It is difficult to overestimate also the contribution made to general recovery by the improvement that restoration of farm income effected in the credit structure. Non-farmers have an enormous investment in farm mortgages and other evidences of farm debt. Once it became clear that improvement in farmers' ability to pay would prevent the investment values from being wiped out, lending institutions gradually began to resume their functions. Revived farm purchasing power helped to restore stability in the financial system, and to protect the integrity of an enormous investment. This was essential to the continued existence of our present financial structure. Without an improvement in farm incomes to support it, the refinancing done for agriculture by the Farm Credit Administration would have been of little if any avail. The restoration of agricultural solvency was essential to national solvency, and this the farm recovery measures helped to achieve.

With the credit structure thus enabled to function properly, the farm recovery promoted non-farm recovery in still another way. As is well known, farmers through the operation of the credit system commonly recieve payment for their crops before the consumer gets them. It became possible at once, after farm prices improved through the operation of the AAA and other national recovery measures, for financial institutions -- some of them with government backing -- to extend to farmers the money due them for their production.

Moreover, the assurance of production control and the price increases that were bound to result made it possible for the government to extend commodity loans on cotton and corn at an amount higher than the then market price. These commodity loans put money into farmers' hands sooner than if they had been without money until they sold their crops. The loans permitted farmers rather than speculators to reap the benefits of the subsequent price increases. It seems a reasonable assumption that the farmers needed goods worse than the speculators did, and therefore spent this money faster in ways that actually gave the business system constructive help.

Much of this money appeared at once in the market for industrial goods. Statistics have shown that in 1933, 1934 and 1935 the peak in rural retail sales followed, with only a brief lag, the autumn peak in farm cash income, and in each of these three years both peaks were much higher than they had been in 1930, 1931 and 1932. The rural buying provided employment immediately for industrial workers, whose earnings thus increased before their food costs rose.

Over against the employment gains caused by farm buying must be set such employment losses as have been caused in the handling trades by the restriction in volume of agricultural production. This raises interesting questions as to the social desirability of having workers engaged in fields where their services are really needed, as to whether agriculture should be expected to continue to suffer just to provide employment in certain related lines, and as to how far excessive expansion of employment due to excessive expansion of production would in any case be offset by excessive contraction of employment due to excessive contraction of production on the backswing of the pendulum. I will not go into these questions further in this paper. I simply want to call attention to this factor as a part of the picture we are considering, and to point out that it is a minor loss in employment compared to the major gains that farm buying has caused.

Returning to my thread of thought, the farm recovery programs involved only an apparent and not a real deduction from the income of the urban community. The cities felt the beneficial influence months before the agricultural revival exerted an appreciable effect on living costs. When retail prices rose eventually, the community was prepared to carry them. Food prices in 1935 were about 80 percent of the 1928 level, having risen to that point from 60 percent in 1933. The average employed factory worker's earnings had also risen to about 80 percent of the 1928 level.

The time sequence to which I have referred seems to give prima facie support to the conclusion that farm recovery has promoted industrial recovery. Keeping that in mind, it is highly significant that industrial payrolls and the average factory worker's earnings have increased since 1933 in about the same proportion that farm incomes have increased.

The facts and arguments I have been giving are intended to show that the increased purchasing power placed in the hands of farmers has promoted national recovery. The AAA program has been of assistance in another way. This is in restoring the equilibrium of agricultural and other prices and thus encouraging a resumption of exchange of goods and services. The disparity which existed at the beginning of 1933 between agricultural and non-agricultural prices called for one of two courses of action. Either the prices paid by farmers had to be

lowered or the prices received by farmers had to be raised. A few moments' consideration will show that the course of lowering prices paid by farmers was impracticable. Taxes, debt service charges, and freight and other public-utility rates are always extremely slow to respond to downward price trends. In fact, during the depression beginning in 1930, the Federal Government itself had granted increases in freight rates on some commodities. Moreoever, prices of most non-agricultural goods had become relatively rigid. While the farmers were selling in a free market, in which supply and demand determine price, the industrialists were selling to a large extent in an administered market in which price and demand determine supply.

There is a definite school of thoughtamong economists that the way to recovery lies in increasing sales of both agricultural and non-agricultural goods by keeping prices as low as costs of large scale production will permit. On the face of it, that sounds like a good arrangement for everyone. Certainly there is nothing novel in the idea as far as the farmer is concerned. It is the principle he has generally followed. The novelty would be in its application, to non-agricultural production. Take, for example, the farm implement manufacturers. If they were to adopt the practice of operating all plants at capacity throughout the year, throwing the output on the market when produced for what it would bring, and if other manufacturers did likewise, certainly farmers would be less minded to cooperate in adjusting their own production to demand than I believe they are today. But I do not see any signs of the early adoption of such a program by industry, notwithstanding the fact that it is apparently desirable so long as wage scales are maintained.

Even if all controls which today operate much more effectively for non-agricultural than for agricultural industries could be brushed aside, the farmer would still be confronted by the enormous burden of debt which can be borne much better with high than with low price levels. This line of thoughtleads into interesting fields, but I cannot follow it further. The point to bear in mind is that balance of industrial and agricultural prices was vital to the recovery process. And no way was proposed to restore that balance through the lowering of industrial prices. Even the outstanding leaders of the school of thought I have just been describing have failed to indicate any practical method of bringing about the lower industrial prices which they advocate. I have studied their analyses and have been impressed with their reasoning, so far as it went, but when I came to the end I found, not the blue prints I had expected, but only the expression of an earnest hope that methods might some day be supplied.

In the meantime, agriculture has faced the exceedingly real alternatives of either adopting controls similar to those in effect in industry, or of continuing to be the shock absorber of the economic machine.

How far the leading industrialists of the United States are from actually abandoning their control upon production and their practice of adhering to administered prices was recently demonstrated with conclusiveness and not a little drama.

I refer to two pronouncements from the automobile industry -- an industry which has gone farther than many others in the direction of mass production of progressively higher quality products at gradually lower levels of prices.

It happens that the two pronouncements from the automobile industry came on the same day. Here in New York City, in a public address before a national organization of manufacturers, an outstanding executive in the automobile field is reported to have said: "We who have the prime responsibility of the major policies of industry must first convince ourselves as to the fundamentals. We must move toward a soundly based and widely distributed economic well-being. This is the theory of plenty as distinguished from the theory of scarcity which has dominated our recent economic thinking and policies."

In the same edition of one newspaper that quoted the remarks of this spokesman for the motor world, I read an Associated Press story under the headline "Auto Chiefs Map Output Control." The news account, dated at Detroit, said:

"The production of motor cars will be geared even more closely to consumer requirements in 1936 under present plans of the automobile manufacturers. This decision appears to have been reached despite the fact every producer in the industry expects next year's requirements to be far in excess of the total volume of the current 12 months. 'Controlled production' as a permanent policy of the automobile industry was adopted shortly after the debacle of late 1929, during which year the assembly plants turned out more than 5,600,000 passenger cars and trucks, and carried over into the following year something in excess of a million units.

"The policy, which has resulted in a gradual but consistent closing up of the gap between factory output and dealer stocks, reached what distribution executives regarded as its high point during the current year, as the industry came to the new model period with only a few weeks stock in the field.

"In 1936, say the producers, output will be wholly for visible demand, with little, if any surplus to carry over beyond the end of the assembling year."

When an enlightened industry, which from its own experience realizes so well the advantages of low price policies in bringing volume of sales and production, still finds it necessary to keep production from outrunning demand as expressed in sales, I believe the impracticability of the nation's depending upon -- or asking farmers to depend upon -- a general abandonment of industrial price controls to bring reasonably prompt recovery should be clear to us all. This naturally raises the question whether public opinion and particularly farm opinion, will permit such controls to operate in the case of industry, and will deny them in the case of agriculture.

Pending the preparation of practical methods of relaxing industrial controls over production and prices, and until there can be serious public discussion and finally the acceptance and operation of such methods, I believe agriculture and the nation will want to follow the safest course now possible within the framework of the existing economic system.

The motor industry, which I have just mentioned, is apparently in perfect agreement with agriculture that vast overproduction, cut-throat competition and demoralization of prices constitute a condition to be shunned. In fact a principle on which all schools of economists seem fairly well agreed is that there

must be balance and proportion between the different branches of production.

When in the absence of any practical method for abandoning industrial controls, agriculture insists upon acquiring and operating its own controls, the farmers do not at all assent to the proposition that their programs rest on a theory of scarcity.

In fact, if as I have tried to show, farm recovery contributed substantially to national recovery, then these programs, by improving balance between supply and outlet, balance between farm prices and industrial prices, and balance between farm purchasing power and non-farm purchasing power, tended to overcome scarcity.

Unbalance becomes apparent in price disparities and forces correction through bankruptcy, unemployment or farm abandonment. Unbalanced production finally is forced to halt, with the resulting paradox that consumption must slow down, too. Unbalance characterizes depression, with widespread unemployment, farm mortgage foreclosures, factory shut-downs, and the grave alternatives of bread lines or relief rolls.

As the economic system comes back into balance, production increases. In maintaining its control over production, in careful balance with demand, the automobile industry is not seeking scarcity but the objective which agriculture also has in view. That objective is controlled expansion -- expansion in step with growth of opportunity to dispose of its products at prices maintained in fair relation to other prices. It is the expectation of agriculture to increase its output with all the rapidity required to keep in step with expanding domestic and foreign outlets. By retaining controls that prevent accumulation of vast surpluses and demoralization of prices, agriculture hopes in the future to maintain farm income at levels which will permit sound farming practices, improvement of the farm plant and conservation of soil resources.

I think I have shown that the most tenable conclusion among the three possible ones I outlined is that agricultural recovery has contributed to national recovery. I would add now that if agriculture can keep and increase its gains, it will help in continued progress toward national recovery.

To sum up, the diversion of purchasing power to agriculture caused an increase not only in consumption but in production. It stimulated consumption in the manner I have indicated, namely by bringing the farmers into the market for consumers' goods. The farmers, while reducing farm production in some instances, actually helped to bring about an increase in the total national production and a net increase in the national income. That was their specific contribution to national recovery.